A First Data White Paper

Increase Revenue and Improve Customer Satisfaction with Dynamic Currency Conversion

If you do not currently offer dynamic currency conversion (DCC) to your international customers, you may be missing an opportunity to improve customer satisfaction and earn extra income.

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May 2009

Introduction

According to the U.S. Department of Commerce, international visitors to the United States in 2008 spent a record-breaking $142 billion—a 16 percent increase over 2007 spending levels.[1] Although the current recession will likely prevent 2009 from being another record-breaking year, increases in international travel to the U.S. will resume as the global economy recovers. International visitor spending in the U.S. soared 77 percent between 2003 and 2008, and experts predict that this trend will continue in the long term.[2] The latest government estimates predict that the number of international visitors to the U.S. will decline slightly in 2009 before rebounding in 2010 and beyond.[3]

This is great news for consumer-oriented businesses, especially ones that have a large number of foreign travelers as customers. This includes—but isn't limited to—hotels, car rental companies, restaurants, retailers, tourist attractions and online merchants, as well as businesses in states located near international borders and/or in states that receive the highest number of international visitors: New York, California, Florida, Nevada, Hawaii, Massachusetts, Illinois, Texas, Michigan, New Jersey and Washington. The question remains: Is your business prepared to capitalize on this trend? Savvy businesses are always looking for new ways to improve customer service, reduce costs and generate additional revenue—activities that are especially critical during difficult economic times. Offering a service called dynamic currency conversion (DCC) at the point-of-sale enables you to accomplish all three of these objectives by capitalizing on the vast (and increasing) amount of spending by international visitors in a way you may not have considered before.

If you have ever traveled to a foreign country, you are undoubtedly familiar with the experience of hastily performing mental calculations to determine how much something may cost you in the currency you understand. For example, would you purchase an MP3 player from a Japanese merchant if the price was 3,429 yen? Your answer is probably consistent with most: "I don't know." Even if you could estimate the U.S. dollar amount based on your knowledge of the approximate exchange rate, you would still be uncertain about the sum that would eventually show up on your credit card statement. But if that same product was priced in U.S. dollars ($33.58), you could likely answer definitively. That's the power of DCC: presenting the consumer with a choice to pay in the currency they are familiar with and fully understand. Dynamic currency conversion can provide you with an important competitive edge when it comes to attracting foreign customers and consummating sales with those customers. According to *The Green Sheet*, "To be able to see the value of transactions in home currencies makes DCC an enticement for foreigners to shop in businesses that offer DCC."[4]

With dynamic currency conversion, it is now possible for you to offer customers making purchases with foreign-issued Visa® or MasterCard® credit cards the choice of paying in either U.S. dollars or in their native currency. In addition to increasing customer satisfaction, every DCC transaction puts money in your pocket. Many businesses derive 20 percent or more of their sales from purchases made with foreign-issued credit cards, so it is clear that this simple service can have a significant impact on your bottom line by increasing your revenue and offsetting the higher fees associated with foreign credit cards. But what exactly is DCC, and how exactly does it work?

Understanding How a Dynamic Currency Conversion Transaction Works

The transaction begins with a card swipe or entry of the card information, just like any normal credit card transaction. The DCC-enabled point-of-sale system (or eCommerce solution, in the case of an online transaction) automatically checks to see if the card is eligible for DCC. There are two primary eligibility requirements:

→ Is this a foreign-issued Visa or MasterCard credit card?

→ If so, is the currency associated with the card supported by your DCC provider?

If the above criteria are met, the customer and/or the sales clerk will be automatically alerted and the customer will be presented with a choice: "Would you like to pay in your native currency or U.S. dollars?" The customer will then see the transaction amount in both U.S. dollars and their native currency. The guaranteed exchange rate used to calculate the native currency amount will also be fully disclosed.

If the customer declines to pay in their own currency, the transaction will proceed as a normal U.S. dollar transaction. For transactions not converted using DCC, the dollar transaction will eventually be converted to the customer's local currency by the customer's credit card issuer using an undisclosed rate of exchange. This means the exchange rate will be unknown to your customer at the time of the transaction. In fact, even if the customer were to call their bank to inquire, they could not obtain the rate of exchange until days later. In addition, transactions converted by the card-issuing bank often result in additional international transaction fees being imposed on the cardholder. The customer will typically be charged between 3 percent and 5 percent of the total transaction amount on a global average.

If you do not offer DCC today, then your foreign customers are currently receiving a receipt that shows the transaction only in U.S. dollars, and they will not find out the exact cost of the transaction until some unspecified future date when the card-issuing bank does the currency conversion and reports it on the credit card statement—often 20 to 30 days later.

If the customer chooses to use dynamic currency conversion to pay in his or her home currency, the system authorizes the transaction in that currency at an exchange rate that is locked in instantly. The transaction remains in that currency through the settlement process until it is funded back to the merchant in U.S. dollars. Please note, however, that not all DCC providers provide this guarantee—so be certain to select a DCC service that guarantees your funded amount. For instance, First Data's DCC solution guarantees the exchange rate at the point-of-sale, ensuring that the transaction amount will not subsequently change due to currency fluctuations or card association exchange rate adjustments.

When the DCC transaction is completed, the merchant gives the cardholder a receipt showing the itemized amount in U.S. dollars, the exchange rate, the amount in the cardholder's native currency and additional DCC-specific disclosures. The entire process happens in a blink of an eye: DCC, when implemented correctly, does not add any measurable time to completing a transaction.

Benefits of DCC to Your Customers

Dynamic currency conversion provides several compelling benefits to your customers:

→ **Transparency.** With a DCC transaction, customers instantly know precisely how much they are paying in their native currency. There are no hidden fees or surprises when they receive their credit card statements: The receipt they receive at the point-of-sale will match exactly the amount that eventually appears on their statement

→ **Immediacy.** The fact that the purchase price in the customer's native currency is disclosed immediately is especially beneficial to business travelers. Often, business people returning from the U.S. cannot submit their travel expenses as promptly as desired because the actual transaction amounts are not known until their credit card statement is available. Dynamic currency conversion solves this common problem and enables business travelers to recoup their travel expenses much more quickly. It also enables budget-minded travelers to accurately calculate their expenses on the spot

→ **Choice.** When foreign visitors pay for goods and services at a business that is not DCC-enabled, they have no choice but to pay in U.S. dollars—and no idea what the final cost of the transaction will be at the time. With DCC, customers are able to see the exchange rate that will be used to convert the transaction to their native currency, and then make an informed decision about the currency they wish to pay in. And if they decide to change their minds about paying in their native currency before the transaction is finalized, it's a simple matter to complete it in dollars instead

→ **Peace of Mind.** Consumers feel much more comfortable about making purchases in their own currency. Foreign travel can be intimidating and stressful, and travelers appreciate the peace of mind that comes from knowing the exact cost of a purchase in their native currency. This is especially important for luxury goods and other large ticket purchases like hotel accommodations and car rentals, where small differences in exchange rates and bank fees can make a transaction significantly more expensive

The Value of DCC to Businesses

Businesses reap several important benefits from providing dynamic currency conversion to their foreign customers:

Increased customer satisfaction. If customer satisfaction was the only benefit of DCC, this service would be exceptionally valuable to businesses as a competitive differentiator and customer service enhancement. The ability to pay in their own currency attracts foreign customers and entices them to spend more: According to *The Green Sheet*, by offering DCC services "merchants increase their average ticket and the actual and virtual foot traffic to their real-world and eCommerce store locations."[5] Customers perceive the option of dynamic currency conversion as an enhanced customer service offering—even if they decide not to use it. Making DCC available is an effective way to help differentiate your business in a crowded marketplace—increasing your ability to attract and retain affluent international travelers by providing each customer with a customized purchase experience.

Ongoing revenue stream. Merchants with foreign customers can expect to enjoy an ongoing stream of extra revenue from DCC transactions. How? The DCC conversion process redirects the revenue earned by the card associations and card issuers from currency conversion margins and fees to merchants and DCC transaction processors. How much revenue businesses can earn from DCC transactions depends on two factors:

1. The amount of total purchases by customers who use DCC-eligible credit cards (i.e., customers paying with a foreign-issued Visa or MasterCard associated with a DCC-supported currency).
2. The percentage of these customers who choose to use DCC to pay in their own currency. According to industry estimates, the DCC acceptance rate ranges between 70 and 90 percent.[6] The acceptance percentage tends to increase sharply as a merchant's sales people gain confidence explaining the benefits of DCC to customers or when a merchant implements a hardware/software solution to more effectively prompt for DCC.

To estimate your incremental income potential from DCC transactions, multiply the amount of your company's sales from foreign credit cards by 1 percent, which is the average margin paid to merchants on each DCC transaction (although this can vary from merchant to merchant). The amount of your sales from foreign-issued cards can be found in the regular statements you receive from your credit card processor or acquiring bank. Depending on the amount of revenue a business receives from foreign customers, the extra income from dynamic currency conversion can be substantial. Say, for instance, a high-end apparel retailer in a Las Vegas casino has annual sales of $65 million. If 20 percent of those sales are paid for with foreign credit cards and its DCC acceptance rate is 80 percent, the retailer stands to gain an extra $104,000 in income from DCC.[7] That's $104,000 in extra *profit*, not sales. This supplementary income doesn't even take into account additional sales and store visits that would potentially result from the increased customer satisfaction attributable to offering customers the choice of paying in their native currencies.

This extra money earned on each DCC transaction is more than enough to offset the cross-border fees and international assessments imposed by card associations on purchases made with foreign-issued credit cards. And because international travel to the United States is expected to continue increasing (along with consumer adoption of DCC), this revenue stream will grow year after year.

Positive effect on chargebacks. Another benefit of DCC transactions is that they can substantially reduce the possibility of chargebacks on purchases made with foreign credit cards. That's because customers are not as likely to be surprised or dismayed by the final billed transaction amount since it is settled in their native currency at the point-of-sale.

When a customer paying in dollars receives their card account statement and is blindsided by an unexpectedly high exchange rate and bank fees, they may feel compelled to return the item or dispute the charge, erroneously believing that the merchant is at fault. In this case, the merchant loses not only the sale plus related chargeback expenses, but also potential repeat business from what is now a dissatisfied customer.

Currency risk mitigation. The currency fluctuation implications associated with chargebacks can also have negative consequences. Chargebacks can occur long after the original transaction, and not all service providers will guarantee the rate through that entire period. Some service providers convert chargebacks at the prevailing rate of exchange on the date the chargeback is issued, or simply pass on chargebacks converted by the card association using a different exchange rate. Let's say a Canadian cardholder made a large purchase at one of your American stores on May 3rd, 2009. On June 5th, a chargeback occurs at the prevailing exchange rate—which, in just over a month, has swung more than 9 percent against you. In other words, without a full exchange rate guarantee, you would have to pay back about 9 percent more dollars than the customer paid you! Fortunately, some DCC service providers, including First Data, guarantee the exchange rate through the full life of the transaction, even if there is a chargeback.

Answering Critics of DCC

Critics of dynamic currency conversion claim that DCC's foreign exchange margins are excessive, and some accuse merchants and their DCC processors of overcharging consumers. However, processors adhere to all relevant disclosure and processing regulations while providing this service. Consider these other points:

- According to trade publication *The Nilson Report*, "More often than not, cardholders can expect as good or even a slightly better FX [foreign exchange] price from DCC than they get from the existing association method. They will certainly get better disclosure of conversion fees."[8]
- Detractors who are indignant (and often misinformed) about the exchange rate margin associated with each DCC transaction overlook the charges consumers pay if they had chosen another payment method. These include: using a hotel or airport currency conversion service, or charging U.S. dollars to their foreign card and allowing the card issuer to convert the transaction using an undisclosed and often inflated exchange rate. In addition, the card issuer may charge them a conversion fee long after the transaction has occurred. ATM withdrawals with a foreign-issued card are often subject to similar charges, in addition to the standard non-customer ATM fees. In all of these cases, the total charges and fees may likely exceed the standard DCC margin.
- Millions of satisfied cardholders have made educated, informed decisions to use DCC because they desire the convenience of dealing in a familiar currency, plus the transparency of knowing the exact billing amount at the time of purchase. The continuing increase in consumer adoption of DCC illustrates the popularity of this service among foreign travelers, in spite of naysayers.

How to Choose a DCC Transaction Processing Solution

In order to offer dynamic currency conversion to its customers, a business must contract with a DCC service provider to implement the necessary processing software at the point-of-sale and to handle the credit card processing for all DCC transactions. Not all DCC service providers are alike or offer the same services. When evaluating a service provider, it is critical that you understand key aspects of their service. Sometimes seemingly minor policy or operational differences can have a significant impact on how well the service works for your business and the extent to which it will benefit your customers.

The following checklist summarizes important points that you should take into consideration when choosing a DCC provider:

- → What is the DCC service provider's track record (years in business, when the service was introduced, number of merchant locations supported)?
- → How many currencies are supported by the DCC service provider? The more currencies supported, the greater potential you have for maximizing revenue from DCC transactions (see chart below).

The Importance of Breadth in DCC-Supported Currencies

When you evaluate DCC service providers, it is very important that you consider the number of foreign currencies they support. The more currencies that are supported, the more transactions that will be eligible for DCC processing. That means more revenue you will earn on DCC conversions.

According to the U.S. Department of Commerce, in 2008, about 90% of foreign travelers to the U.S. came from the following 20 countries, *all supported by First Data's DCC offering today.*

As of May 2009, First Data supports 36 foreign currencies, more than any other DCC service provider.

Rank	Country
1	Canada
2	Mexico
3	United Kingdom
4	Japan
5	Germany
6	France
7	Italy
8	Brazil
9	South Korea
10	Australia
11	Spain
12	China
13	Netherlands
14	India
15	Ireland
16	Venezuela
17	Colombia
18	Sweden
19	Switzerland
20	Israel

→ How is the exchange rate determined? Ideally, the DCC service provider will use a well-known, published wholesale interbank exchange rate, ensuring highly competitive rates that are not normally available to consumers. Many providers use an arbitrary, undisclosed basis for exchange rate determination. If the base exchange rate is inflated, your customers will pay more and your sales will ultimately decline due to customer dissatisfaction. First Data uses only a published wholesale interbank rate, which ensures that the consumer is receiving a highly competitive rate.

→ Does the DCC service provider offer exchange rate guarantees protecting both the merchant and the cardholder from currency fluctuation risks? Guarantees vary among providers of DCC services. Many DCC providers do not offer any guarantee to the merchant or the cardholder. Look for more than a verbal guarantee—ensure that the service has a guarantee contractually built into it.

→ What is the DCC service provider's core business? Be wary if its only line of business is DCC. It may be seeking out higher profits from this service that will ultimately come at a cost to your customers.

→ Will DCC increase the merchant's interchange fees? Many solutions in the market will result in the merchant paying additional interchange and assessment costs. This is a result of DCC providers calculating these fees based on the converted amount. First Data's DCC solution calculates fees on the original U.S. dollar amount prior to conversion, which ensures that the merchant does not pay any additional interchange or assessment fees. Be aware that bundled pricing within DCC can disguise these increases by building the increase into the bundled price.

→ Does the DCC provider utilize a treasury service as the backbone of the product? Many DCC providers offer a solution that does not include a treasury service provider. Without a treasury provider, the consumer and the merchant will likely incur additional expenses and/or hidden fees. In the currency conversion process, it is important to understand that without a treasury partner, the solution is nothing more than an exchange rate provisioning service. Using a treasury partner provides the consumer with protection and offers the merchant a guarantee ensuring that costs will not increase, that the funding they expect will be received, and that any risk associated with currency exchange will reside with the provider.

→ Is the DCC service provider also your payment processor, or is it a third party? Merchants must take into account that DCC comprises not only currency conversion on a transactional basis—it also includes funding. When choosing a DCC provider, it is imperative that you investigate the candidates' backgrounds, especially their fiscal responsibility and financial stability. The company you select will have a direct responsibility for a major part of your current cash flow and funding. Conflicts can easily arise when the job of processing credit card transactions is split among two or more companies—so it may be desirable to use a turnkey provider that can handle both your DCC transactions and your core processing.

Conclusion

As international travel to the United States resumes its long-term growth, more and more consumers will appreciate the option to execute their purchases in their native currencies. Conducting transactions abroad can be confusing and daunting for even experienced travelers. Businesses that can instantly convert a purchase amount into a customer's native currency, and then provide the choice of which currency to use—without hidden fees—can break down such impediments to commerce and make the experience considerably more agreeable for consumers.

DCC provides a simple, fast, transparent way for consumers to make their payments in the currency they know and understand. Aside from the convenience of paying in their native currency, there is the peace of mind provided by an exchange rate that is locked in at the point-of-sale. This protects both the consumer and the merchant from fluctuations in exchange rates that can occur at any time during the final settlement of the transaction.

With DCC, merchants are able to offer a service that is immediate, relevant and gratifying to their customers. DCC is available for both brick-and-mortar merchants and online retailers, and offers businesses a simple way to earn extra income that more than offsets the additional fees associated with processing foreign-issued credit cards.

DCC is an international currency and payment solution for the ever-expanding global marketplace. To compete in today's global market, you as a merchant must be prepared to offer solutions that will allow you to expand your current reach, appeal to global customers and ensure the financial integrity of your business. The First Data Dynamic Currency Conversion (DCC) service is an innovative credit card processing solution that provides merchants with the ability to offer their international customers the choice to pay in their own currency or U.S. dollars (USD). First Data is the leading provider of DCC services to merchants located in the United States, and has invested nearly 10 years in developing this robust product.

Sources:

[1]U.S. Department of Commerce, ”United States Travel and Tourism Exports, Imports, and the Balance of Trade: 2008,” April 2009.

[2]*Ibid*.

[3]U.S. Department of Commerce, “Outlook for International Travel to the U.S.,” October 2008.

[4]*The Green Sheet*, “Sizing Up,” December 2008.

[5]*The Green Sheet*, “Agents of Change,” December 2008.

[6]Dizdar, Bulent Burc, “Opportunity Assessment of Dynamic Currency Conversion,” Summer 2006.

[7]Based on a hypothetical DCC margin of 1 percent (this rate varies across DCC providers).

[8]*The Nilson Report*, ”Dynamic Currency Conversion,” February 2003.

The Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

About The Authors

Brian Frey, senior director of International Currency Solutions, is responsible for managing First Data's International Currency Solutions, including Dynamic Currency Conversion.

Frey, a seven-year veteran of First Data, is a world-renowned expert in international payment products and services. He is currently responsible for First Data's Dynamic Currency Conversion product and has provided support to thousands of merchant locations to successfully implement DCC.

Prior to joining First Data, Frey built his career of more than 30 years designing complex business systems in telecommunications, manufacturing and engineering, medical, and credit card processing industries with some of the largest Fortune 500 companies.

Michael Black, vice president of International Currency Solutions and Business-to-Business Solutions, oversees First Data's suite of international currency and business-to-business product offerings, including its Dynamic Currency Conversion service.

Black has been with First Data since early 2005 as the senior product manager managing the DCC business for First Data. Since then, he has added First Data's Global Acquiring, Global ePricing and Business-to-Business solutions to his portfolio of products.

Prior to joining First Data, Black spent 11 years with JPMorganChase and its predecessor companies, where he held several different leadership positions within the Chase Cardmember Services and Chase Insurance Group organizations.

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